

Message Text

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41

ACTION NEA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 DODE-00 PM-03 H-02 L-02 PA-02 PRS-01 USIA-15

SAB-01 ABF-01 FSE-00 /114 W
----- 014957

R 131320Z FEB 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 237

INFO AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

UNCLAS TEHRAN 1461

E.O. 11652: N/A

TAGS: EFIN, IR

SUBJ: CENTRAL BANK OF IRAN MOVES TO STABILIZE THE RIAL

1. THE CENTRAL BANK OF IRAN ANNOUNCED YESTERDAY THAT EFFECTIVE IMMEDIATELY THE RIAL'S DIRECT RELATIONSHIP TO THE DOLLAR WOULD BE TERMINATED AND IRAN'S CURRENCY PEGGED TO THE VALUE OF SPECIAL DRAWING RIGHTS (SDR). THE TYING OF THE VALUE OF THE RIAL TO SDRS WILL BE ACCOMPLISHED BY THE USE OF A SPECIAL FORMULA WHEREBY THE RIAL WILL MOVE RELATIVE TO MOVEMENTS IN THE DOLLAR-SDR EXCHANGE RATE. THE EXCHANGE RATE FOR DOLLARS (67.50 RIALS PER DOLLAR) WILL REMAIN CONSTANT AS LONG AS THE DOLLAR-SDR RATE DOES NOT EXCEED OR FALL BELOW PARITY BY MORE THAN 2.25 PERCENT FOR MORE THAN FOUR SUCCESSIVE DAYS. IF THE DOLLAR-SDR RATE HAS REMAINED ABOVE OR BELOW THE 2.25 PERCENT MARGIN FOR THE FIFTH STRAIGHT DAY, THEN THE DOLLAR-RIAL RATE

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WILL BE CHANGED ACCORDINGLY. THE RANGE WITHIN WHICH THE RIAL

COULD FLUCTUATE WITHOUT ANY OFFICIAL CHANGE IN RATES IS THUS
66.69 RIALS TO THE DOLLAR AS A LOW AND 69.71. ON THE HIGH SIDE.

2. IN MAKING THE ANNOUNCEMENT, THE CENTRAL BANK'S PRESIDENT, MOHAMMED YEGANEH, SAID THAT THE MAJOR IMPULSE BEHIND THE MOVE WAS TO INSURE STABILITY OF THE RIAL. HE OBSERVED THAT THE DOLLAR HAS FLUCTUATED CONSIDERABLY OVER THE PERIOD JUNE-DECEMBER 1973 VIS-A-VIS ITS VALUE AGAINST MAJOR EUROPEAN CURRENCIES WHICH HAD THE EFFECT OF REVALUING THESE CURRENCIES AGAINST THE RIAL AND CONSEQUENTLY RESULTING IN RELATIVELY MORE COSTLY IMPORTS FROM THSES EUROPEAN COUNTRIES. HE SAID THAT IRAN DOES NOT DESIRE A MAJOR CHANGE IN THE EXCHANGE RATE OF THE RIAL BUT ONLY A MECHANISM TO GUARD IRAN'S CURRENCY AGAINST SUDDEN AND WIDE FLUCTUATIONS. A CENTRAL BANK OF IRAN ANALYSIS REVELAS THAT HAD THE RIAL BEEN PEGGED TO THE SDR IN THIS FASHION WHEN SPECIAL DRAWING RIGHTS CAME INTO OPERATION IN JUNE 1974, THE RIAL EXCHANGE RATE WOULD HAVE EXCEEDED THE 2.25 PERCENT MARGIN ONLY ONCE DURING THIS PERIOD. THE CBI PRESIDENT ALSO INDICATED THAT THE BANK WILL SOON MOVE TO TRY AND ESTABLISH A FORWARD MARKET FOR FOREIGN EXCHANGE TO FREE IMPORTERS AND EXPORTERS FROM UNDUE CONCERN OVER SUDDEN FLUCTUATIONS IN EXCHANGE RATES REDUCING PROFIT MARGINS.

3. THE EMBASSY WILL TRANSMIT AN ENGLISH TRANSLATION OF THE CBI'S ANNOUNCEMENT AS SOON AS POSSIBLE.

4. COMMENT: IT HAS BEEN KNOWN FOR SOME TIME OF COURSE THAT CONCERN HAS BEEN MOUNTING INOFFICIAL CIRCLES OVER THE RISING PRICE INDEX FOR PRODUCTS WHICH IRAN IMPORTS. A MAJOR PART OF THE CONCERN AROSE OVER A FEELING OF HELPLESSNESS, AS THE GOI SAW IT, OVER WORLD-WIDE INFLATIONARY PRESSURES BUT IT WAS CLEAR THAT FLUCTUATING EXCHANGE RATES, AS THESE MIGHT HEIGHTEN THE COST OF IRANIAN IMPORTS, WAS ALSO PART OF THE PROBLEM. THE PEGGING OF THE RIAL EXCHANGE RATE TO MOVEMENTS IN THE DOLLAR-SDR RATE CAN BE SEEN AS A COMPROMISE BETWEEN A FIXED RATE EXCHANGE AND SIMPLY ALLOWING THE RIAL TO FLOAT. THE WAY IS NOW OPEN FOR A SERIES OF MINI-REVALUATIONS (OR DEVALUATIONS) OF THE RIAL WITHOUT THE NEED FOR EXPLICIT POLICY DECISIONS IN THIS REGARD, DEPENDING UPON HOW THE DOLLAR MOVES.

HELMS

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